

Message Text

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ACTION EUR-12

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PASS AGRICULTURE ELECTRONICALLY

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TAGS: EAGR,EEC

SUBJECT: OCTOBER 25-26 COUNCIL OF AGRICULTURAL MINISTERS

PROPOSED MCA REFORM

REF: (A) EC BRUSSELS 9808,(B) EC BRUSSELS 9865,(C) LONDON
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1. SUMMARY: THE FOCUS OF THE OCTOBER 25-26 MEETING OF THE COUNCIL OF AGRICULTURAL MINISTERS,ORIGINALLY ON THE COMMISSON'S DAIRY REFORM PACKAGE,HAS SHIFTED TO EC AGRO-MONETARY PROBLEMS.THE COMMISSION HAS PROPOSED A SYSTEM OF AUTOMATIC ADJUSTMENTS IN GREEN RATES WITHIN CERTAIN LIMITATIONS-- INCLDING A CEILING ON MONETARY COMPENSATORY AMOUNTS (MCA'S). EC FINANCE MINISTERS WILL PARTICIPATE IN THE DISCUSSION OF THIS PROPOSAL ON OCTOBER 27 THE COMMISSION IS ALSO ASKING FOR AN IMMEDIATE 4.5 PERCENT DEVALUATION OF THE U.K.GREEN POUND. DENMARK HAS REQUESTED A DEVALUATION OF ITS GREEN RATE,WHICH IS EXPECTED TO BE GRANTED OTHERWISE,NO DECISIONS ARE EXPECTED TO BE TAKEN ON EITHER THE AGRO- MONETARY PROPOSALS OR THE DAIRY REFORM PACKAGE.END SUMMARY.

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2 THE OCTOBER 25-26 MEETING OF THE COUNCIL OF AGRICULTURAL MINISTERS WAS ORIGINALLY TO BE DEVOTED TO DISCUSSION OF THE COMMISSION'S DAIRY REFORM PACKAGE AS A RESULT OF THE RECENT FALL OF THE POUND, HOWEVER, IT NOW APPEARS THAT AGRO-MONETARY PROBLEMS WILL BE THE MAJOR TOPIC OF COUNCIL DISCUSSION. FINANCE AND AGRICULTURAL MINISTERS WILL PARTICIPATE IN A JOINT DISCUSSION OF THESE PROBLEMS ON OCTOBER 27. THE AGRICULTURAL MINISTERS ARE STILL SCHEDULED TO HAVE AN INITIAL ROUND OF DISCUSSION ON THE DAIRY PACKAGE (REF.B). HOWEVER, THIS DISCUSSION IS NOT EXPECTED TO BE VERY PROFOUND AND NO DECISIONS ARE ANTICIPATED. THE COMMISSION PROPOSAL TO EXTEND

THE COMPULSORY PURCHASE SCHEME FOR NFDM IS ALSO ON THE AGENDA. THE COUNCIL IS EXPECTED TO ALLOW THIS SCHEME TO EXPIRE ON OCTOBER 31.

3. ON OCTOBER 21 THE COMMISSION FORWARDED A COMMUNICATION TO THE COUNCIL OUTLINING THE PROBLEMS ASSOCIATED WITH THE EXISTING SYSTEM OF MCA'S AND PROPOSING A SYSTEM OF AUTOMATIC ADJUSTMENTS IN NATIONAL GREEN RATES. THE ADVERSE EFFECTS OF THE EXISTING SYSTEM OF MCA'S WERE DESCRIBED AS:

A. REINTRODUCTION OF SHARPLY DIFFERENT PRICE LEVELS WITHIN THE EC.

B. DISTORTION OF COMPETITION AND MISALLOCATION OF RESOURCES. THE SYSTEM FAVORS FARMERS AND PENALIZES CONSUMERS IN COUNTRIES WITH APPRECIATING CURRENCIES WHILE IT FAVORS CONSUMERS AND PENALIZES FARMERS IN COUNTRIES WITH DEPRECIATING CURRENCIES.

C. MASSIVE DRAIN ON THE EC BUDGET MCA'S, ARE APPLIED AS IMPORT SUBSIDIES IN DEPRECIATING-CURRENCY COUNTRIES AND EXPORT SUBSIDIES IN APPRECIATING CURRENCY COUNTRIES; THESE COSTS HAVE FAR EXCEEDED MCA'S COLLECTED AS IMPORT TAXES (IN APPRECIATING COUNTRIES) AND EXPORT TAXES (IN DEPRECIATING COUNTRIES). THE COMMISSION NOTES THAT NET EXPENDITURES ON MCA'S HAVE RISEN FROM 140 MILLION U.A. IN 1973 TO OVER 600 MILLION U.A. IN 1976. IF THE CURRENT SITUATION CONTINUES, THEY WILL COST ABOUT 1 BILLION U.A. IN 1977.

4. TO COME TO GRIPS WITH THIS SITUATION, THE COMMISSION HAS PROPOSED THAT GREEN RATES BE REGULARLY ADJUSTED TO A LEVEL EQUAL TO THE AVERAGE MARKET RATES OF NATIONAL CURRENCIES IN UNCLASSIFIED

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AN 18-MONTH PERIOD. IN THE CASE OF COUNTRIES WITH DEPRECIATING CURRENCIES, THIS CALCULATION WOULD BE MADE EVERY 6 MONTHS; AND THE ADJUSTMENT IN THE GREEN RATE WOULD TAKE PLACE 6 MONTHS AFTER THIS CALCULATION. THE COMMISSION PROPOSES THAT THE FIRST ADJUSTMENT TAKE PLACE ON JANUARY 1, 1977 BASED ON MARKET RATES IN A JANUARY 1, 1975- JULY 1, 1976 REFERENCE PERIOD. COMMISSION OFFICIALS TELL US THAT THIS SYSTEM WOULD RESULT IN ABOUT A 7 PERCENT DEVALUATION OF THE U.K. GREEN

POUND ON JANUARY 1, 1977.THE COMMISSION IS LESS SPECIFIC WITH RESPECT TO THE TREATMENT OF APPRECIATING COUNTRIES. PRESUMABLY THEY WOULD STILL USE AN 18-MONTH AVERAGE OF MARKET RATES; HOWEVER ADJUSTMENTS WOULD BE MADE AT THE TIME OF THE ANNUAL PRICE FIXING RATHER THAN ON A 6-MONTH BASIS.

4.THE COMMISSION ALSO PROPOSES THAT A CEILING BE PLACED ON MCA'S.THE GREEN RATE WOULD BE AUTOMATICALLY ADJUSTED WHENEVER MCA'S SURPASS THIS CEILING.UNTIL JULY 1, 1978 A HIGHER CEILING WOULD BE SET FOR THE NEW MEMBER STATES THA FOR THE ORIGINAL SIX MEMEBERS.FINALLY,IN ORDER TO AVOID AN ADVERSE EFFECT ON PRICE STABILIZATION PROGRAMSTHE COMMISSION PROPOSES THAT A LIMIT BE PLACED ON ADJUSTMENT IN THE GREEN RATE WITHIN A GIVEN TIME PERIOD.NOTE THAT THE COMMISSON HAS NOT SPECIFIED EITHER THE CEILING ON MCA'S OR THE LIMIT ON GREEN RATE ADJUSTMENTS.

6.THE COMMISSON IS ALSO CALLING FOR AN IMMEDIATE DEVALUATION OF 4.5 PERCENT IN THE U.K. GREEN POUND; HOWEVER, OUR SOURCES CONFIRM THAT THE UNITED KINGDOM WILL ONCE AGAIN RESIST THIS DEMAND AS REPORTED IN REF C.ALSO,THE DANES ARE REQUESTING A DEVALUATION OF THEIR GREEN RATE SO AS TO ELIMINATE THE 4.2 PERCENT MCA NOW APPLIED TO DANISH AGRICULTURAL TRADE.MCA'S WERE APPLIED ONDANISH TRADE FOR THE FIRST TIME THIS WEEK AS A RESULT OF THE RECENT DEVALUATON OF THE KRONER VIS-A-VIS THE GERMAN MARK.AS OF OCTOBER 25,MCA'S APPLIED ON THE AGRICULTURAL TRADE OF THE DIFFERENT MEMBER STATES WERE AS FOLLOWS:

GERMANY- 9.3
BENELUX - 4.2
UNITED KINGDOM - 37.3
IRELAND - 22.4
FRANCE - 13.7
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ITALY - 14.4

GERMAN AND BENELUX MCA'S ARE APPLIED AS IMPORT TAXES AND EXPORT SUBSIDIES; MCA'S ON THE REMAINING COUNTRIES ARE APPLIED AS IMPORT SUBSIDIES AND EXPORT TAXES.
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